Canada: Ontario Announces a Harmonized Sales Tax

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Summary

On July 1, 2010 the Premier of Ontario announced that the Ontario Provincial Retail Sales Tax (PST) and the Federal Goods and Services Tax (GST) in Canada will be combined to create a single Harmonized Sales Tax (HST) in Ontario. The transitional rules and structural details of the new tax have yet to be released and will be reported by the U.S. Commercial Service in Canada once they are made available. In the interim, U.S. companies exporting to Ontario, Canada need to be aware that implementation of the HST will have direct implications on their business activities in the months ahead.

The Ontario Harmonized Sales Tax (HST)

As of July 1, 2010 the province of Ontario will be converting its 8 percent Retail Sales Tax (RST), also known as the Provincial Sales Tax (PST), to a value-added tax structure and merging it with the current 5 percent Federal Goods and Services Tax (GST) to create a 13 percent Harmonized Sales Tax (HST). An HST already exists in the provinces of New Brunswick, Newfoundland and Nova Scotia.

The Canadian federal government and the Ontario provincial government have yet to provide transitional rules for the Ontario HST. As it stands, the effect that the conversion to HST will have on businesses operating in Ontario is unclear. Overall, however, the effect is expected to be positive. Currently, Ontario businesses pay the PST on purchases made in the process of providing their goods and services for sale. These PST payments are then passed on to consumers through a higher price for finished goods and services. By moving to a single sales tax, businesses would get the money they spend on provincial sales tax returned to them in the same manner they currently receive GST rebates or credits. The Federal Government feels that the tax credits on their business inputs would lead to significant cost savings for business and lower costs for consumers. The expected result is an estimated savings of CDN$3 billion for Ontario businesses. It is also expected that the majority of savings will be passed on to consumers through lower pricing. Additionally, businesses are expected to experience savings as a result of the lower cost that will be incurred in collecting, administering and remitting a single tax that will be administered only by the Federal government.

For some businesses, the cost cuts associated with the introduction of the HST will facilitate investment; make it easier to engage in R&D and simply make it easier overall to do business in Ontario. This is especially true in the Information and Communications Technology sector (ICT) where substantial savings are being predicted. Currently, the GST on certain categories of IT equipment can be written off, but not the PST. The introduction of the HST will allow businesses to write-off the entire sales tax on that equipment if it is sold in the province of Ontario and as a result, should increase Ontario-based companies' sales. According to analysts at PricewaterhouseCoopers, however, Ontario vendors need to be prepared for a drop in sales in the first half of 2010 as customers wait until the HST comes into effect to take advantage of the tax write-offs.

Opponents of the tax change say that for Ontario consumers and U.S. companies exporting to Canada, it is expected that there will be an overall tax increase, as many items that were only taxed with the five percent GST will be subjected to thirteen percent under the new HST rules. For U.S. exporters, this increased tax cost could be offset through an increase in the price of the good to the end customer.

To facilitate the tax transition, support will be offered to small businesses operating in Ontario as of March 31, 2010. Credits will be offered to businesses with taxable revenues under CDN$500,000. Financial institutions as well as large businesses with annual taxable sales greater than CDN$10 million will be subject to a restricted input tax credit. It will apply solely to the provincial portion of the HST, and only be in effect for the first five years and phase out over the following three years. The federal and provincial government have announced that a comprehensive HST agreement will be released by September 10, 2009 and complete policy and administrative details by March 31, 2010.

Implications for U.S. exporters: The Canada Border Services Agency does not currently collect a retail sales tax (or PST) on commercial shipments. This means there will continue to be a substantial increase in customs redeterminations relating to value for duty (on duty free goods) so that retroactive assessments of GST can be made. As a result, importers will face a significantly greater assessment risk in the future relating to HST and interest. For more information regarding HST payments on good imported into Canada, visit the Canada Revenue Agency's Information Bulletin and the GST/HST Information guide for Non-Residents.

As the Ontario Government and the Canadian Federal Government have yet to release the details on how the HST will be administered, specific information on how the new tax structure will affect U.S. exporters is not yet available. The U.S. Commercial Service will be providing updates as more details become available.

For More Information

The U.S. Commercial Service in Ottawa, Canada can be contacted via e-mail at: Tracey.Ford@mail.doc.gov; Phone: 613-688-5406; Fax: 613-238-5999; or visit our website: www.buyusa.gov/canada.

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